

**The University of Tennessee  
Knoxville, Tennessee**

**For the Year Ended  
June 30, 1997**

**Arthur A. Hayes, Jr., CPA**

Director

**Charles K. Bridges, CPA**

Assistant Director

**Tammy D. Gourley, CPA**

Audit Manager

**Robert D. Hunter, Jr., CPA**

In-Charge Auditor

**Gerry Boaz**

**John Bowman**

**Hank Bush**

**Chris Cimino**

**Donna Flatt**

**John Fusco**

**Robert Harrill, CPA**

**Teresa Kennedy**

**Jeff Lafever**

**Ron Queen**

**Jennifer Thomason**

**Ryan Younggren**

Staff Auditors

**Dianne Mitchell McKay, CPA**

Technical Manager

**Fawn W. Ellis, CPA**

Technical Analyst

**Leslie Bethea**

Editor

January 13, 1998

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
The Honorable William B. Sansom, Chairman  
Finance Committee  
Board of Trustees  
The University of Tennessee  
Knoxville, Tennessee 37996-0180  
and  
Dr. Joseph Johnson, President  
The University of Tennessee  
831 Andy Holt Tower  
Knoxville, Tennessee 37996-0180

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the University of Tennessee for the year ended June 30, 1997. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. The university has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The university's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass  
Comptroller of the Treasury

WRS/rd  
97/097

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**The University of Tennessee**  
For the Year Ended June 30, 1997

---

## AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## INTERNAL CONTROL FINDING

### **Failure to Properly Approve Contracts**

The university allowed services to be rendered before proper university approvals were obtained for contracts (page 8).

## COMPLIANCE FINDINGS

### **Failure to Recalculate Pell Awards When Students Do Not Begin Attendance**

The University of Tennessee at Knoxville does not recalculate Federal Pell Grant awards to students who fail to begin attendance in some of their classes (page 9).

### **Failure to Promptly Report Enrollment Status Changes**

The University of Tennessee at Martin does not promptly report changes in student enrollment status for Federal Family Education Loan borrowers (page 9).

## **OPINION ON THE FINANCIAL STATEMENTS**

The opinion on the financial statements is qualified because of the omission of the liability for accrued compensated absences from the financial statements.

---

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

---

**Audit Report**  
**The University of Tennessee**  
**For the Year Ended June 30, 1997**

---

**TABLE OF CONTENTS**

---

	<u>Exhibit</u>	<u>Page</u>
<b>INTRODUCTION</b>		1
Post-Audit Authority		1
Background		1
Organization		1
<b>AUDIT SCOPE</b>		2
<b>OBJECTIVES OF THE AUDIT</b>		2
<b>PRIOR AUDIT FINDINGS</b>		3
Resolved Audit Findings		3
<b>RESULTS OF THE AUDIT</b>		3
Audit Conclusions		3
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		5
Findings and Recommendations		8
Finding 1 – The University of Tennessee failed to approve contracts before the beginning of the contract period		8
Finding 2 – Pell awards not recalculated when students do not begin attendance in some of their classes		9

---

## TABLE OF CONTENTS (CONT.)

---

	<u>Exhibit</u>	<u>Page</u>
Finding 3–The University of Tennessee at Martin failed to promptly report enrollment status changes for loan recipients		9
<b>FINANCIAL STATEMENTS</b>		
Independent Auditor’s Report		12
Balance Sheets	A	14
Statement of Changes in Fund Balances for the Year Ended June 30, 1997	B	16
Statement of Changes in Fund Balances for the Year Ended June 30, 1996	C	18
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1997	D	20
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1996	E	21
Notes to the Financial Statements		22

# **The University of Tennessee For the Year Ended June 30, 1997**

---

## **INTRODUCTION**

---

### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the University of Tennessee. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### **BACKGROUND**

The University of Tennessee was first established as Blount College in 1794 by the legislature of the Federal Territory. In 1807, the General Assembly renamed the institution East Tennessee College and in 1840 designated it a university. East Tennessee University was selected by the General Assembly to be Tennessee’s land-grant institution under the terms of the Morrill Act of 1862. In 1879, the General Assembly chose the school to be Tennessee’s state university and changed the name to the University of Tennessee.

Since its establishment, the university has grown into an institution with 23 different colleges and schools. With its primary campuses, various experiment stations, and extension services, the university provides services throughout the state. The main campus is in Knoxville; other campuses are in Memphis, Martin, and Chattanooga.

### **ORGANIZATION**

The University of Tennessee is governed by the University of Tennessee Board of Trustees. In 1968, the board reorganized the institution into a university system, giving a central administrative staff the responsibility for the entire operation of the university and establishing on the primary campuses chancellors who are responsible for their respective campuses.



---

## AUDIT SCOPE

---

The audit was limited to the period July 1, 1996, through June 30, 1997, and was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 1997, and for comparative purposes, the year ended June 30, 1996. The University of Tennessee is an integral part of state government. As such, it has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

---

## OBJECTIVES OF THE AUDIT

---

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act of 1984, as amended, and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act of 1984, as amended, and OMB Circular A-133.**

---

## **PRIOR AUDIT FINDINGS**

---

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on May 5, 1997. A follow-up of all prior audit findings was conducted as part of the current audit.

## **RESOLVED AUDIT FINDINGS**

The current audit disclosed that the university has corrected previous audit findings concerning the inadequacy of data processing security, the inadequacy of computer program change procedures, and the failure to promptly return financial aid refunds.

---

## **RESULTS OF THE AUDIT**

---

### **AUDIT CONCLUSIONS**

#### Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 1997, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations.

### Fairness of Financial Statement Presentation

The university has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the university's financial statements.

**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

September 26, 1997

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the University of Tennessee, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 1997, and have issued our report thereon dated September 26, 1997. Our report was qualified because the university omitted the liability for accrued compensated absences from the balance. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other, less significant, instances of noncompliance that we have reported to the university's management in a separate letter.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- The University of Tennessee failed to approve contracts before the beginning of the contract period.

This condition is described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to the university's management in a separate letter.

The Honorable W. R. Snodgrass  
September 26, 1997  
Page Three

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/rd

## **FINDINGS AND RECOMMENDATIONS**

### **1. The University of Tennessee failed to approve contracts before the beginning of the contract period**

#### **Finding**

The university allowed services to be rendered before proper university approvals were obtained. Of 28 contracts reviewed, 14 (50%) were not approved before the beginning of the contract period. The proper approval for these contracts was obtained from nine to 198 days after the beginning of the contract period. The *Fiscal Policy* of the University of Tennessee states that contracts “will be executed by a Vice President or person(s) designated by the Executive Vice President and Vice President of Business and Finance” (Section 130, Part 4). Additionally, the university’s bylaws state that the university is not legally bound to the contract until the contract is approved by proper university personnel (*Fiscal Policy*, Section 50, Part 1). If contracts are not approved before the contract period begins and before services are rendered, the university could be obligated to pay for unauthorized services.

In addition, beginning on July 1, 1996, the university entered into a contract with University Health System, Inc., (UHS) to manage university-owned medical practices in the Knoxville area. UHS provided practice management, billing, consulting, and other services without a written formal agreement until May 5, 1997. During this ten month period, university expenditures incurred under the contract exceeded \$4 million dollars.

#### **Recommendation**

University management should take steps to ensure that all personnel know and follow the fiscal policies pertaining to contracts. The contract process should be initiated far enough in advance to allow the contract to go through the proper channels. Contracts should be approved by proper university personnel before the beginning of the contract period. Procedures should include regular monitoring of the contracting process by supervisory staff to ensure compliance.

#### **Management’s Comment**

The university concurs with the finding. The university recently changed its contracting policies by delegating the authority to execute most contracts under a specified contract amount to senior campus level administrators. This change reduces the execution time for many university contracts and will help address the weaknesses noted in this finding. In addition, the university will communicate to campus leadership the importance of processing contracts prior to the beginning dates of the contracts.

**2. Pell awards are not recalculated when students do not begin attendance in some of their classes**

**Finding**

The University of Tennessee at Knoxville does not recalculate Federal Pell Grant awards to students who fail to begin attendance in some of their classes. Recalculations do not occur because the student financial aid office does not have a procedure in place to determine if Pell recipients do not begin attendance in some classes. The unofficial withdrawal of student financial aid recipients from all classes is monitored; however, those who fail to attend a portion of their classes are not detected through this procedure. The *Federal Student Financial Aid Handbook*, chapter 4, page 64, states, “If the student does not begin attendance in all of his or her classes, the school must recalculate the student’s [Pell] award based on the lower enrollment status.”

The absence of a procedure to determine if a Pell recipient has failed to begin attendance in some, but not all, classes could result in an overaward to some recipients.

**Recommendation**

The Director of Financial Aid should develop and implement a procedure to determine if Pell recipients begin attendance in all classes. Pell awards should be recalculated whenever a student fails to begin attendance in any classes.

**Management’s Comment**

The university concurs with the finding. In order for the university to comply with this recommendation, faculty members would be required to take attendance at all classes. The university has historically not required faculty members to collect student attendance information. The university will attempt to identify a practical procedure that will determine whether or not Pell recipients begin attendance in all classes.

**3. The University of Tennessee at Martin failed to promptly report enrollment status changes for loan recipients**

**Finding**

The University of Tennessee at Martin does not promptly report changes in student enrollment status for Federal Family Education Loan (FFEL) borrowers. In the 1997 fiscal year, three of seven status changes tested (43%) were reported late, and in the 1996 fiscal year, one of



six status changes tested (17%) was reported late. The changes were reported from 11 to 101 days late.

According to the *Code of Federal Regulations*, Title 34, Part 682.610 (c), a school shall

- (1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and
- (2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days
  - (i) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time-basis;
  - (ii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended;
  - (iii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis.

By not notifying the lender promptly when a student borrower withdraws or ceases to be enrolled at least half-time, the college delays the start of the repayment process.

### **Recommendation**

The Director of Student Financial Assistance and the Data Integrity Supervisor should implement a system which adequately identifies loans requiring notification to lenders and track such notification. The information from the system should be regularly monitored to ensure compliance with federal regulations. Instances of noncompliance should be noted and appropriate corrective action taken. The Director of Student Financial Assistance should consider automating the process and should consult with appropriate staff regarding the development of an automated system.

### **Management's Comment**

The university concurs with the finding. UT Martin, through its Records Office, joined the National Student Loan Clearinghouse in January, 1997. The Clearinghouse is notified of any changes in student status at the end of the fourteenth day of classes, at midterm, and at the end of the semester. The Clearinghouse notifies the lenders of any changes.

## **Independent Auditor's Report**

September 26, 1997

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the University of Tennessee, which is a component unit of the State of Tennessee, as of June 30, 1997, and June 30, 1996, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the university has omitted the liability for accrued compensated absences from the accompanying balance sheets which should be included to conform with generally accepted accounting principles.

The Honorable W. R. Snodgrass  
September 26, 1997  
Page Two

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Tennessee, as of June 30, 1997, and June 30, 1996, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 9 to the financial statements, the university implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers," in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 1997, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/rd

THE UNIVERSITY OF TENNESSEE  
BALANCE SHEETS  
JUNE 30, 1997, AND JUNE 30, 1996

	June 30, 1997	June 30, 1996		June 30, 1997	June 30, 1996
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Note 3)	\$ 88,567,354.04	\$ 93,105,849.15	Liabilities:		
Accrued interest receivable	2,556,141.81	2,073,883.05	Salaries, wages, and benefits payable	\$ 12,619,318.38	\$ 12,898,127.95
Accounts receivable (net of allowance			Accounts payable (Note 1)	28,542,099.65	33,567,402.21
of \$2,821,537.64 at June 30, 1997, and			Payroll taxes payable	11,473,250.98	11,336,786.02
\$2,618,817.24 at June 30, 1996)	10,930,980.51	9,877,548.28	Deposits and advance payments	1,937,865.77	1,625,048.10
Inventories (Note 1)	3,820,802.44	5,192,583.93	Deferred revenue	9,828,673.22	9,041,065.76
Prepaid expenses and deferred charges	1,875,069.74	2,782,215.50			
Due from life income funds	73,566.65	54,260.14	Total liabilities:	64,401,208.00	68,468,430.04
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital (Note 1)	13,632,406.23	13,925,127.45
			Allocation for encumbrances (Note 11)	3,527,030.66	3,896,702.25
			Discretionary allocations:		
			Allocation for unemployment compensation	160,425.83	621,831.43
			Allocation for revolving accounts	6,007,558.20	8,060,903.33
			Allocation for unexpended gifts	1,714,164.88	1,796,359.07
			Allocation for reappropriation	2,830,963.25	3,983,689.57
			Unallocated	15,550,158.14	12,333,296.91
			Total fund balances	43,422,707.19	44,617,910.01
Total general	107,823,915.19	113,086,340.05	Total general	107,823,915.19	113,086,340.05
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Note 3)	17,388,543.43	17,393,511.98	Liabilities:		
Accounts receivable (net of allowance			Salaries, wages, and benefits payable	583,833.18	557,934.18
of \$1,042,424.88 at June 30, 1997, and			Accounts payable	2,042,508.59	1,863,772.32
\$1,332,295.19 at June 30, 1996)	3,235,872.66	3,392,518.39	Deposits and advance payments	1,160,257.79	1,165,123.38
Inventories (Note 1)	5,062,875.42	5,562,350.42	Deferred revenue	11,168,146.78	10,749,022.18
Deferred charges	457,621.93	431,222.76			
			Total liabilities	14,954,746.34	14,335,852.06
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital (Note 1)	8,286,355.08	8,943,050.34
			Allocation for encumbrances (Note 11)	852,766.89	597,945.30
			Unallocated	2,051,045.13	2,902,755.85
			Total fund balances	11,190,167.10	12,443,751.49
Total auxiliary enterprises	26,144,913.44	26,779,603.55	Total auxiliary enterprises	26,144,913.44	26,779,603.55
Hospitals:			Hospitals:		
Cash and cash equivalents (Note 3)	23,962,659.89	28,491,074.13	Liabilities:		
Accounts receivable (net of allowance			Accounts payable	14,993,650.39	14,658,388.14
of \$43,543,055.41 at June 30, 1997, and			Salaries, wages, and benefits payable	5,880,853.33	5,534,345.01
\$53,305,302.38 at June 30, 1996)	66,485,916.93	68,423,874.70			
Inventories (Note 1)	1,752,960.83	2,096,558.71	Total liabilities	20,874,503.72	20,192,733.15
Deferred charges	1,562,449.00	503,087.00	Fund balances:		
Assets held by others (Note 3)	2,316,038.33	-	Nondiscretionary allocations:		
			Allocated for working capital (Note 1):		
			Memorial Hospital - Knoxville	54,924,019.96	55,803,521.42
			William F. Bowld Hospital - Memphis	13,312,732.49	14,714,893.24
			Allocated for encumbrances (Note 11):		
			Memorial Hospital - Knoxville	4,106,696.16	3,800,740.83
			William F. Bowld Hospital - Memphis	452,742.24	433,359.10
			Discretionary allocations:		
			Allocated for revolving accounts	800,323.64	1,104,069.32
			Unallocated		
			Memorial Hospital - Knoxville	4,753,984.41	9,905,759.76
			William F. Bowld Hospital - Memphis	(3,144,977.64)	(6,440,482.28)
			Total fund balances	75,205,521.26	79,321,861.39
Total hospitals	96,080,024.98	99,514,594.54	Total hospitals	96,080,024.98	99,514,594.54
Total unrestricted	230,048,853.61	239,380,538.14	Total unrestricted	230,048,853.61	239,380,538.14
Restricted:			Restricted:		
Cash and cash equivalents (Note 3)	26,706,118.12	23,126,799.20	Liabilities:		
Accounts receivable - educational			Salaries, wages, and benefits payable	823,733.70	871,585.74
and general	53,789,224.63	47,579,287.17	Accounts payable	2,865,633.03	2,458,405.81
Accounts receivable - hospitals	341,207.12	759,401.02			
Bonds (Note 3)	9,804.10	12,929.54	Total liabilities	3,689,366.73	3,329,991.55
Stocks (Note 3)	-	19,750.00	Fund balances:		
Other assets (Note 3)	121,910.38	116,097.48	Educational and general	74,364,039.57	65,849,568.52
Real estate gifts (Note 3)	385,000.00	385,000.00	Auxiliary enterprises	651,179.18	313,365.48
			Hospitals	2,648,678.87	2,506,338.86
			Total fund balances	77,663,897.62	68,669,272.86
Total restricted	81,353,264.35	71,999,264.41	Total restricted	81,353,264.35	71,999,264.41
Total current funds	\$ 311,402,117.96	\$ 311,379,802.55	Total current funds	\$ 311,402,117.96	\$ 311,379,802.55

THE UNIVERSITY OF TENNESSEE  
BALANCE SHEETS  
JUNE 30, 1997, AND JUNE 30, 1996

	June 30, 1997	June 30, 1996		June 30, 1997	June 30, 1996
<b>ASSETS</b>			<b>LIABILITIES AND FUND BALANCES</b>		
Loan funds:			Loan funds:		
Cash and cash equivalents (Note 3)	\$ 5,908,606.81	\$ 5,077,745.02	Fund balances:		
Accrued interest receivable	733,505.78	659,055.88	Privately sponsored loan funds - restricted	\$ 4,379,146.81	\$ 4,232,906.20
Notes receivable (net of allowance of \$1,215,851.79 at June 30, 1997, and \$1,810,466.25 at June 30, 1996)	30,120,533.68	29,507,061.29	University funds - restricted	2,262,516.75	2,186,888.77
Total loan funds	\$ 36,762,646.27	\$ 35,243,862.19	Federal participation loan funds - restricted	30,120,982.71	28,824,067.22
Endowment and similar funds (Note 4):			Total loan funds	\$ 36,762,646.27	\$ 35,243,862.19
Cash and cash equivalents (Note 3)	\$ 30,855,491.86	\$ 17,007,084.83	Endowment and similar funds:		
Accounts receivable	391,651.23	382,320.77	Accounts payable	\$ 958,109.32	\$ 403,418.92
Notes (Note 3)	1,666,197.39	1,733,354.95	Fund balances:		
Bonds (Note 3)	70,397,387.42	70,828,583.24	Undistributed gains and losses on investment transactions	61,418,956.61	39,714,120.76
Stocks (Note 3)	90,359,042.59	80,607,406.48	Endowment - restricted	146,004,222.17	132,529,814.15
Venture capital (Note 3)	10,523,596.21	7,566,026.36	Quasi-endowment - restricted	16,344.74	16,344.74
Assets with the University of Chattanooga Foundation, Inc. (Notes 3 and 10)	1,716,121.00	1,601,257.00	Quasi-endowment - unrestricted	19,046,448.96	16,680,417.55
Assets held by others (Note 3)	206,736.02	205,994.05	Total fund balances	226,485,972.48	188,940,697.20
Real estate gifts (Note 3)	4,931,761.28	3,422,247.44			
Real estate equity (Note 3)	16,369,207.80	5,962,950.00			
Other assets (Note 3)	26,889.00	26,891.00			
Total endowment and similar funds	\$ 227,444,081.80	\$ 189,344,116.12	Total endowment and similar funds	\$ 227,444,081.80	\$ 189,344,116.12
Life income funds (Note 4):			Life income funds:		
Cash and cash equivalents (Note 3)	\$ 806,311.29	\$ 832,487.63	Due to unrestricted current funds - general	\$ 73,566.65	\$ 54,260.14
Accounts receivable	9,914.84	129,427.28	Fund balances - restricted	36,918,078.88	30,540,069.91
Notes (Note 3)	1,266,123.81	1,313,805.45			
Bonds (Note 3)	28,358,922.70	23,088,825.82			
Stocks (Note 3)	4,587,732.89	3,393,143.87			
Real estate gifts (Note 3)	1,962,640.00	1,836,640.00			
Total life income funds	\$ 36,991,645.53	\$ 30,594,330.05	Total life income funds	\$ 36,991,645.53	\$ 30,594,330.05
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Note 3)	\$ -	\$ 4,799,187.23	Liabilities:		
Notes (Note 3)	-	4,973.81	Accounts payable	\$ 4,022,625.54	\$ 5,590,904.14
Real estate gifts (Note 3)	82,700.00	82,700.00	Due to retirement of indebtedness	2,678,246.81	-
State capital outlay and maintenance receivable	411,411.26	406,719.15	Tennessee State School Bond Authority indebtedness (Notes 5 and 13)	3,500,505.79	7,094,202.64
Tennessee State School Bond Authority debt proceeds receivable	3,500,505.79	7,094,202.64	Total liabilities	10,201,378.14	12,685,106.78
Stocks (Note 3)	670.38	886.15	Fund balances (Note 13):		
Total unexpended plant	3,995,287.43	12,388,668.98	Restricted	4,198,165.60	4,348,358.26
Retirement of indebtedness and renewals and replacements:			Unrestricted	(10,404,256.31)	(4,644,796.06)
Cash and cash equivalents (Note 3)	94,886,200.24	89,083,999.68	Total fund balances	(6,206,090.71)	(296,437.80)
Due from unexpended plant	2,678,246.81	-	Total unexpended plant	3,995,287.43	12,388,668.98
Capitalized interest receivable	553,101.58	-	Retirement of indebtedness and renewals and replacements:		
Unexpended construction earnings receivable	676,015.73	340,995.96	Fund balances:		
Assets with trustees (Note 3):			Restricted	31,084,744.71	23,531,389.17
Tennessee State School Bond Authority Department of Education student housing reserve	29,529,541.03	22,831,998.90	Unrestricted	97,423,389.47	88,901,403.55
	185,028.79	175,798.18			
Total retirement of indebtedness and renewals and replacements	128,508,134.18	112,432,792.72	Total retirement of indebtedness and renewals and replacements	128,508,134.18	112,432,792.72
Investment in plant (Note 1):			Investment in plant:		
Land	34,481,903.21	32,802,171.21	Liabilities:		
Buildings	1,007,013,320.69	953,030,875.63	Tennessee State School Bond Authority indebtedness (Notes 5 and 13)	280,711,403.80	258,569,418.15
Improvements other than buildings	73,192,212.96	69,798,317.02	Notes payable (Note 5)	107,239.89	124,920.41
Equipment	404,706,660.34	407,970,287.50	Accrued interest payable	2,494,642.42	2,047,776.60
Library holdings (Notes 13 and 14)	240,314,350.00	146,973,083.00	Lease obligations (Note 7)	2,107,054.07	2,665,042.21
Livestock	1,813,080.00	1,690,348.00	Fund balances:		
Total investment in plant	1,761,521,527.20	1,612,265,082.36	Net investment in plant (Notes 13 and 14)	1,476,101,187.02	1,348,857,924.99
Total plant funds	\$ 1,894,024,948.81	\$ 1,737,086,544.06	Total investment in plant	1,761,521,527.20	1,612,265,082.36
Agency funds:			Total plant funds	\$ 1,894,024,948.81	\$ 1,737,086,544.06
Cash and cash equivalents (Note 3)	\$ 4,857,620.20	\$ 3,780,495.46	Agency funds:		
Accounts receivable	828,627.10	368,895.87	Liabilities:		
Bonds (Note 3)	209,750.00	198,750.00	Accounts payable	\$ 62,706.61	\$ 109,950.16
Stocks (Note 3)	2,988,939.06	3,269,176.38	Deposits held in custody for others	8,822,229.75	7,507,367.55
Total agency funds	\$ 8,884,936.36	\$ 7,617,317.71	Total agency funds	\$ 8,884,936.36	\$ 7,617,317.71

The notes to the financial statements are an integral part of this statement.

THE UNIVERSITY OF TENNESSEE  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds								Plant Funds		
	Unrestricted								Unexpended	Retirement of Indebtedness and Renewals and Replacements	Investment In Plant
	Educational and General	Auxiliary Enterprises	Hospitals	Total	Restricted	Loan Funds	Endowment and Similar Funds	Life Income Funds			
<b>REVENUES AND OTHER ADDITIONS</b>											
Unrestricted current funds revenues	\$ 582,883,885.79	\$ 114,802,428.61	\$ 307,184,473.25	\$ 1,004,870,787.65	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted gifts and grants	-	-	-	-	238,163,510.31	-	13,533,206.27	6,337,306.96	-	-	-
Federal Perkins loan funds	-	-	-	-	-	338,753.00	-	-	-	-	-
Federal nursing and health professions loan funds	-	-	-	-	-	33,748.00	-	-	-	-	-
Interest on notes receivable	-	-	-	-	-	772,753.07	-	-	-	-	-
Endowment income	-	-	-	-	7,313,751.20	67,200.81	363,295.64	-	-	-	-
Investment income	-	-	-	-	140,031.65	186,019.90	-	2,091,090.99	302,359.00	4,604,697.28	-
Net gain on investments	-	-	-	-	-	-	24,340,343.09	1,151,555.19	-	-	-
State appropriations for capital outlay	-	-	-	-	-	-	-	-	19,797,207.25	-	-
Tennessee State School Bond Authority proceeds	-	-	-	-	-	-	-	-	33,208,602.84	6,809,345.05	-
Capital lease acquisitions	-	-	-	-	-	-	-	-	-	-	2,966,073.88
Gifts and other sources	-	-	-	-	-	616,342.63	-	-	1,254,636.88	-	8,494,319.83
Student debt service fees	-	-	-	-	-	-	-	-	-	2,984,612.17	-
Federal interest subsidy grants	-	-	-	-	-	-	-	-	-	181,564.00	-
Special state legislature appropriations	-	-	-	-	-	-	-	-	-	248,183.39	-
Expended for plant facilities (including \$44,670,333.66 charged to current fund expenditures)	-	-	-	-	-	-	-	-	-	-	111,005,932.66
Physical inventory adjustments	-	-	-	-	-	-	-	-	-	-	31,916,247.31
Retirement of indebtedness	-	-	-	-	-	-	-	-	-	-	71,628,068.11
Total revenues and other additions	582,883,885.79	114,802,428.61	307,184,473.25	1,004,870,787.65	245,617,293.16	2,014,817.41	38,236,845.00	9,579,953.14	54,562,805.97	14,828,401.89	226,010,641.79
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>											
Unrestricted current fund expenditures	570,843,663.02	96,849,693.08	295,893,485.18	963,586,841.28	-	-	-	-	-	-	-
Restricted current fund expenditures	-	-	-	-	216,644,582.52	-	-	-	-	-	-
Administration and collection costs	-	-	-	-	-	200,502.94	-	-	-	-	-
Loan cancellations and write-offs	-	-	-	-	-	326,255.82	-	-	-	-	-
Payments to beneficiaries	-	-	-	-	-	-	-	2,381,085.15	-	-	-
Expended for plant facilities	-	-	-	-	-	-	-	-	65,539,183.98	796,415.02	-
Retirement of indebtedness	-	-	-	-	-	-	-	-	-	19,749,722.10	-
Interest on indebtedness	-	-	-	-	-	-	-	-	-	14,572,305.78	-
Disposal of plant facilities	-	-	-	-	-	-	-	-	-	-	196,000.00
Buildings and improvements written off and adjustments	-	-	-	-	-	-	-	-	-	-	2,410,920.78
Capital lease additions	-	-	-	-	-	-	-	-	-	-	2,408,085.74
Increase in indebtedness	-	-	-	-	-	-	-	-	-	-	93,752,373.24
Indirect costs recovered	-	-	-	-	19,399,567.32	-	-	-	-	-	-
Other	-	-	-	-	421,876.52	14,406.26	-	2,941.95	8,037,963.28	-	-
Total expenditures and other deductions	570,843,663.02	96,849,693.08	295,893,485.18	963,586,841.28	236,466,026.36	541,165.02	-	2,384,027.10	73,577,147.26	35,118,442.90	98,767,379.76

THE UNIVERSITY OF TENNESSEE  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds								Plant Funds		
	Unrestricted								Unexpended	Retirement of Indebtedness and Renewals and Replacements	Investment In Plant
	Educational and General	Auxiliary Enterprises	Hospitals	Total	Restricted	Loan Funds	Endowment and Similar Funds	Life Income Funds			
<b>TRANSFERS AMONG FUNDS -</b>											
<b>ADDITIONS (DEDUCTIONS)</b>											
Mandatory:											
Principal and interest	(3,626,494.47)	(11,024,776.79)	(10,337,134.86)	(24,988,406.12)	-	-	-	-	-	24,988,406.12	-
Loan funds matching	(69,523.71)	-	-	(69,523.71)	-	69,523.71	-	-	-	-	-
Endowment and similar funds	-	-	-	-	-	-	817,917.07	(817,917.07)	-	-	-
Nonmandatory:											
Unrestricted current funds	6,048,239.98	(4,252,251.14)	(1,795,988.84)	-	-	-	-	-	-	-	-
Restricted current funds	(823,391.89)	(20,000.00)	-	(843,391.89)	(156,642.04)	(24,392.02)	(1,021,623.40)	-	2,121,049.35	(75,000.00)	-
Endowment and similar funds	(7,000.00)	-	(44,999.50)	(51,999.50)	-	-	51,999.50	-	-	-	-
Unexpended plant	(1,517,357.83)	(1,003,049.31)	(3,229,205.00)	(5,749,612.14)	-	-	-	-	10,983,639.03	(5,234,026.89)	-
Retirement of indebtedness	(13,239,897.67)	(2,906,242.68)	-	(16,146,140.35)	-	-	(539,862.89)	-	-	16,686,003.24	-
Total transfers	(13,235,425.59)	(19,206,319.92)	(15,407,328.20)	(47,849,073.71)	(156,642.04)	45,131.69	(691,569.72)	(817,917.07)	13,104,688.38	36,365,382.47	-
Net increase (decrease) for the year	(1,195,202.82)	(1,253,584.39)	(4,116,340.13)	(6,565,127.34)	8,994,624.76	1,518,784.08	37,545,275.28	6,378,008.97	(5,909,652.91)	16,075,341.46	127,243,262.03
Fund balance at July 1, 1996	44,617,910.01	12,443,751.49	79,321,861.39	136,383,522.89	68,669,272.86	35,243,862.19	188,940,697.20	30,540,069.91	(296,437.80)	112,432,792.72	1,348,857,924.99
Fund balance at June 30, 1997	\$ 43,422,707.19	\$ 11,190,167.10	\$ 75,205,521.26	\$ 129,818,395.55	\$ 77,663,897.62	\$ 36,762,646.27	\$ 226,485,972.48	\$ 36,918,078.88	\$ (6,206,090.71)	\$ 128,508,134.18	\$ 1,476,101,187.02

The notes to the financial statements are an integral part of this statement.



THE UNIVERSITY OF TENNESSEE  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds							Plant Funds			
	Unrestricted							Unexpended	Retirement of Indebtedness and Renewals and Replacements	Investment In Plant	
	Educational and General	Auxiliary Enterprises	Hospitals	Total	Restricted	Loan Funds	Endowment and Similar Funds	Life Income Funds			
<b>REVENUES AND OTHER ADDITIONS</b>											
Unrestricted current funds revenues	\$ 566,266,308.89	\$ 108,148,427.91	\$ 300,974,888.79	\$ 975,389,625.59	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted gifts and grants	-	-	-	-	223,088,885.00	-	10,912,851.47	5,298,004.10	-	-	-
Federal Perkins loan funds	-	-	-	-	-	464,959.54	-	-	-	-	-
Federal nursing and health professions loan funds	-	-	-	-	-	119,918.51	-	-	-	-	-
Interest on notes receivable	-	-	-	-	-	757,418.97	-	-	-	-	-
Endowment income	-	-	-	-	7,258,720.12	56,334.49	313,973.26	-	-	-	-
Investment income	-	-	-	-	129,426.05	146,171.62	-	1,750,201.00	490,493.88	4,583,900.07	-
Net gain on investments	-	-	-	-	-	-	8,175,873.86	185,916.22	-	-	-
State appropriations for capital outlay	-	-	-	-	-	-	-	-	16,719,315.31	-	-
Tennessee State School Bond Authority proceeds	-	-	-	-	-	-	-	-	50,366,125.58	-	-
Capital lease acquisitions	-	-	-	-	-	-	-	-	-	-	1,023,711.23
Gifts and other sources	-	-	-	-	-	97,808.14	-	-	659,041.56	18,651.00	7,547,478.42
Student debt service fees	-	-	-	-	-	-	-	-	-	2,740,023.84	-
Federal interest subsidy grants	-	-	-	-	-	-	-	-	-	206,078.00	-
Special state legislature appropriations	-	-	-	-	-	-	-	-	-	386,119.07	-
Expended for plant facilities (including \$47,829,674.35 charged to current fund expenditures)	-	-	-	-	-	-	-	-	-	-	111,256,886.27
Retirement of indebtedness	-	-	-	-	-	-	-	-	-	-	12,451,344.87
Total revenues and other additions	<u>566,266,308.89</u>	<u>108,148,427.91</u>	<u>300,974,888.79</u>	<u>975,389,625.59</u>	<u>230,477,031.17</u>	<u>1,642,611.27</u>	<u>19,402,698.59</u>	<u>7,234,121.32</u>	<u>68,234,976.33</u>	<u>7,934,771.98</u>	<u>132,279,420.79</u>
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>											
Unrestricted current fund expenditures	568,567,613.90	90,487,457.38	287,523,289.89	946,578,361.17	-	-	-	-	-	-	-
Restricted current fund expenditures	-	-	-	-	205,503,165.96	-	-	-	-	-	-
Administration and collection costs	-	-	-	-	-	164,970.56	-	-	-	-	-
Loan cancellations and write-offs	-	-	-	-	-	225,669.15	-	-	-	-	-
Payments to beneficiaries	-	-	-	-	-	-	-	1,772,812.30	-	-	-
Expended for plant facilities	-	-	-	-	-	-	-	-	63,092,519.01	334,692.91	-
Retirement of indebtedness	-	-	-	-	-	-	-	-	-	12,451,344.87	-
Interest on indebtedness	-	-	-	-	-	-	-	-	-	12,824,218.61	-
Disposal of plant facilities	-	-	-	-	-	-	-	-	-	-	340,675.00
Buildings and improvements written off and adjustments	-	-	-	-	-	-	-	-	-	-	1,150,422.14
Physical inventory adjustments	-	-	-	-	-	-	-	-	-	-	22,374,277.29
Capital lease additions	-	-	-	-	-	-	-	-	-	-	5,248.36
Increase in indebtedness	-	-	-	-	-	-	-	-	-	-	50,278,429.78
Indirect costs recovered	-	-	-	-	18,856,452.57	-	-	-	-	-	-
Other	-	-	-	-	819,417.18	22,914.02	750.00	3,900.21	5,646,078.26	-	-
Total expenditures and other deductions	<u>568,567,613.90</u>	<u>90,487,457.38</u>	<u>287,523,289.89</u>	<u>946,578,361.17</u>	<u>225,179,035.71</u>	<u>413,553.73</u>	<u>750.00</u>	<u>1,776,712.51</u>	<u>68,738,597.27</u>	<u>25,610,256.39</u>	<u>74,149,052.57</u>

THE UNIVERSITY OF TENNESSEE  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds							Plant Funds		
	Unrestricted							Unexpended	Retirement of Indebtedness and Renewals and Replacements	Investment In Plant
	Educational and General	Auxiliary Enterprises	Hospitals	Total	Restricted	Loan Funds	Endowment and Similar Funds	Life Income Funds		
<b>TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)</b>										
Mandatory:										
Principal and interest	(2,100,400.50)	(8,802,783.47)	(9,357,177.39)	(20,260,361.36)	-	-	-	-	20,260,361.36	-
Loan funds matching	(117,705.70)	-	-	(117,705.70)	-	117,705.70	-	-	-	-
Endowment and similar funds	-	-	-	-	-	-	300,041.56	(300,041.56)	-	-
Nonmandatory:										
Unrestricted current funds	5,081,869.87	(3,372,574.84)	(1,709,295.03)	-	-	-	-	-	-	-
Restricted current funds	(511,824.06)	(56,056.00)	49,529.71	(518,350.35)	854,418.26	13,577.27	(197,671.00)	-	(151,974.18)	-
Endowment and similar funds	(10,500.00)	-	(157,496.00)	(167,996.00)	-	-	167,996.00	-	-	-
Unexpended plant	(1,203,494.95)	(1,725,112.29)	(4,806,304.57)	(7,734,911.81)	-	-	-	-	14,167,869.10	(6,432,957.29)
Retirement of indebtedness	(1,544,700.39)	(2,697,300.33)	-	(4,242,000.72)	-	-	1,024,599.62	-	-	3,217,401.10
Total transfers	(406,755.73)	(16,653,826.93)	(15,980,743.28)	(33,041,325.94)	854,418.26	131,282.97	1,294,966.18	(300,041.56)	14,015,894.92	17,044,805.17
Net increase (decrease) for the year	(2,708,060.74)	1,007,143.60	(2,529,144.38)	(4,230,061.52)	6,152,413.72	1,360,340.51	20,696,914.77	5,157,367.25	13,512,273.98	(630,679.24)
Fund balance at July 1, 1995	47,325,970.75	11,436,607.89	81,851,005.77	140,613,584.41	62,516,859.14	33,883,521.68	168,243,782.43	25,382,702.66	(13,808,711.78)	113,063,471.96
Fund balance at June 30, 1996	\$ 44,617,910.01	\$ 12,443,751.49	\$ 79,321,861.39	\$ 136,383,522.89	\$ 68,669,272.86	\$ 35,243,862.19	\$ 188,940,697.20	\$ 30,540,069.91	\$ (296,437.80)	\$ 112,432,792.72
										\$ 1,348,857,924.99

The notes to the financial statements are an integral part of this statement.

THE UNIVERSITY OF TENNESSEE  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 1997

	Current Year		
	Unrestricted	Restricted	Total
<b>REVENUES</b>			
Tuition and fees	\$ 131,195,419.92	\$ -	\$ 131,195,419.92
Federal appropriations	13,397,290.02	-	13,397,290.02
State appropriations	358,672,000.00	9,065,839.06	367,737,839.06
Local appropriations	2,179,554.33	-	2,179,554.33
Federal grants and contracts	15,144,816.38	82,491,117.69	97,635,934.07
State grants and contracts	1,656,453.52	26,681,419.06	28,337,872.58
Local grants and contracts	2,873,107.85	6,217,112.44	9,090,220.29
Private gifts, grants, and contracts	4,787,101.51	74,457,673.31	79,244,774.82
Endowment income - university and other	59,441.55	13,817,178.62	13,876,620.17
Sales and services of educational activities	33,956,141.91	-	33,956,141.91
Other sources	18,962,558.80	-	18,962,558.80
Total educational and general	582,883,885.79	212,730,340.18	795,614,225.97
Sales and services of auxiliary enterprises	114,802,428.61	42,320.00	114,844,748.61
Sales and services of hospitals	307,184,473.25	3,871,922.34	311,056,395.59
Total current revenues	1,004,870,787.65	216,644,582.52	1,221,515,370.17
<b>EXPENDITURES AND TRANSFERS</b>			
Educational and general expenditures:			
Instruction	259,360,511.56	48,786,649.62	308,147,161.18
Research	37,998,397.89	91,033,022.93	129,031,420.82
Public service	48,341,079.87	42,193,694.70	90,534,774.57
Academic support	66,817,394.46	5,277,215.75	72,094,610.21
Student services	36,407,941.70	1,089,966.89	37,497,908.59
Institutional support	55,955,828.47	567,351.17	56,523,179.64
Operation and maintenance of plant	47,030,504.39	71,941.70	47,102,446.09
Scholarships and fellowships	18,932,004.68	23,710,497.42	42,642,502.10
Total educational and general expenditures	570,843,663.02	212,730,340.18	783,574,003.20
Mandatory transfers for:			
Principal and interest	3,626,494.47	-	3,626,494.47
Loan funds	69,523.71	-	69,523.71
Nonmandatory transfers for:			
Retirement of indebtedness	13,239,897.67	-	13,239,897.67
Endowment and similar funds	7,000.00	-	7,000.00
Restricted current funds	823,391.89	-	823,391.89
Unexpended plant	1,517,357.83	-	1,517,357.83
Auxiliary enterprises	(4,252,251.14)	-	(4,252,251.14)
Hospitals	(1,795,988.84)	-	(1,795,988.84)
Total educational and general expenditures and transfers	584,079,088.61	212,730,340.18	796,809,428.79
Auxiliary enterprises:			
Expenditures	96,849,693.08	42,320.00	96,892,013.08
Mandatory transfer for:			
Principal and interest	11,024,776.79	-	11,024,776.79
Nonmandatory transfers for:			
Retirement of indebtedness	2,906,242.68	-	2,906,242.68
Unexpended plant	1,003,049.31	-	1,003,049.31
Restricted current funds	20,000.00	-	20,000.00
Educational and general	4,252,251.14	-	4,252,251.14
Total auxiliary enterprises expenditures and transfers	116,056,013.00	42,320.00	116,098,333.00
Hospitals:			
Expenditures	295,893,485.18	3,871,922.34	299,765,407.52
Mandatory transfer for:			
Principal and interest	10,337,134.86	-	10,337,134.86
Nonmandatory transfers for:			
Educational and general	1,795,988.84	-	1,795,988.84
Endowment and similar funds	44,999.50	-	44,999.50
Unexpended plant	3,229,205.00	-	3,229,205.00
Total hospitals expenditures and transfers	311,300,813.38	3,871,922.34	315,172,735.72
Total expenditures and transfers	1,011,435,914.99	216,644,582.52	1,228,080,497.51
Excess (deficiency) revenues over (under) expenditures and transfers:			
Educational and general	(1,195,202.82)	-	(1,195,202.82)
Auxiliary enterprises	(1,253,584.39)	-	(1,253,584.39)
Hospitals	(4,116,340.13)	-	(4,116,340.13)
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)</b>			
Restricted receipts in excess of expenditures	-	28,972,710.64	28,972,710.64
Indirect costs recovered	-	(19,399,567.32)	(19,399,567.32)
Restricted gifts transferred from (to) other funds	-	(578,518.56)	(578,518.56)
Net increase (decrease) in fund balances	\$ (6,565,127.34)	\$ 8,994,624.76	\$ 2,429,497.42

The notes to the financial statements are an integral part of this statement.

THE UNIVERSITY OF TENNESSEE  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 1996

	Current Year		
	Unrestricted	Restricted	Total
<b>REVENUES</b>			
Tuition and fees	\$ 120,943,753.10	\$ -	\$ 120,943,753.10
Federal appropriations	13,073,132.00	-	13,073,132.00
State appropriations	354,693,300.00	9,098,007.73	363,791,307.73
Local appropriations	2,086,444.16	-	2,086,444.16
Federal grants and contracts	15,538,357.99	81,339,647.57	96,878,005.56
State grants and contracts	1,459,069.77	25,714,529.49	27,173,599.26
Local grants and contracts	3,083,783.46	4,963,518.48	8,047,301.94
Private gifts, grants, and contracts	4,180,015.16	68,371,464.47	72,551,479.63
Endowment income - university and other	57,465.82	11,242,713.44	11,300,179.26
Sales and services of educational activities	33,280,889.18	-	33,280,889.18
Other sources	17,870,098.25	-	17,870,098.25
Total educational and general	566,266,308.89	200,729,881.18	766,996,190.07
Sales and services of auxiliary enterprises	108,148,427.91	11,934.83	108,160,362.74
Sales and services of hospitals	300,974,888.79	4,761,349.95	305,736,238.74
Total current revenues	975,389,625.59	205,503,165.96	1,180,892,791.55
<b>EXPENDITURES AND TRANSFERS</b>			
Educational and general expenditures:			
Instruction	262,870,050.51	46,146,082.85	309,016,133.36
Research	36,684,913.41	87,921,582.70	124,606,496.11
Public service	45,973,988.02	36,208,228.15	82,182,216.17
Academic support	64,854,570.40	4,459,117.60	69,313,688.00
Student services	35,944,244.74	931,912.86	36,876,157.60
Institutional support	57,842,371.20	479,081.75	58,321,452.95
Operation and maintenance of plant	47,768,186.97	34,627.01	47,802,813.98
Scholarships and fellowships	16,629,288.65	24,549,248.26	41,178,536.91
Total educational and general expenditures	568,567,613.90	200,729,881.18	769,297,495.08
Mandatory transfers for:			
Principal and interest	2,100,400.50	-	2,100,400.50
Loan funds	117,705.70	-	117,705.70
Nonmandatory transfers for:			
Retirement of indebtedness	1,544,700.39	-	1,544,700.39
Endowment and similar funds	10,500.00	-	10,500.00
Restricted current funds	511,824.06	-	511,824.06
Unexpended plant	1,203,494.95	-	1,203,494.95
Auxiliary enterprises	(3,372,574.84)	-	(3,372,574.84)
Hospitals	(1,709,295.03)	-	(1,709,295.03)
Total educational and general expenditures and transfers	568,974,369.63	200,729,881.18	769,704,250.81
Auxiliary enterprises:			
Expenditures	90,487,457.38	11,934.83	90,499,392.21
Mandatory transfer for:			
Principal and interest	8,802,783.47	-	8,802,783.47
Nonmandatory transfers for:			
Retirement of indebtedness	2,697,300.33	-	2,697,300.33
Unexpended plant	1,725,112.29	-	1,725,112.29
Restricted current funds	56,056.00	-	56,056.00
Educational and general	3,372,574.84	-	3,372,574.84
Total auxiliary enterprises expenditures and transfers	107,141,284.31	11,934.83	107,153,219.14
Hospitals:			
Expenditures	287,523,289.89	4,761,349.95	292,284,639.84
Mandatory transfer for:			
Principal and interest	9,357,177.39	-	9,357,177.39
Nonmandatory transfers for:			
Educational and general	1,709,295.03	-	1,709,295.03
Endowment and similar funds	157,496.00	-	157,496.00
Restricted current funds	(49,529.71)	-	(49,529.71)
Unexpended plant	4,806,304.57	-	4,806,304.57
Total hospitals expenditures and transfers	303,504,033.17	4,761,349.95	308,265,383.12
Total expenditures and transfers	979,619,687.11	205,503,165.96	1,185,122,853.07
Excess (deficiency) revenues over (under) expenditures and transfers:			
Educational and general	(2,708,060.74)	-	(2,708,060.74)
Auxiliary enterprises	1,007,143.60	-	1,007,143.60
Hospitals	(2,529,144.38)	-	(2,529,144.38)
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)</b>			
Restricted receipts in excess of expenditures	-	24,973,865.21	24,973,865.21
Indirect costs recovered	-	(18,856,452.57)	(18,856,452.57)
Restricted gifts transferred from (to) other funds	-	35,001.08	35,001.08
Net increase (decrease) in fund balances	\$ (4,230,061.52)	\$ 6,152,413.72	\$ 1,922,352.20

The notes to the financial statements are an integral part of this statement.

**The University of Tennessee**  
**Notes to the Financial Statements**  
**June 30, 1997, and June 30, 1996**

---

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The university is a component unit of the State of Tennessee, and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the university is a separate legal entity, the state is financially accountable for the university because the state appoints a majority of its governing body and is obligated to provide financial support.

The University of Tennessee System is composed of the University of Tennessee, Knoxville; the University of Tennessee at Chattanooga; the University of Tennessee at Martin; the University of Tennessee - Center for the Health Sciences, composed of the Memphis campus, the Memorial Research Center at Knoxville, Clinical Education Centers at Chattanooga and Knoxville, Family Practice Centers at Jackson, Knoxville, and Memphis, and hospitals in Knoxville and Memphis; the University of Tennessee Space Institute at Tullahoma; the University of Tennessee Institute of Agriculture, composed of the College of Agriculture at Knoxville, the Agricultural Experiment Stations, the Agricultural Extension Service, and the College of Veterinary Medicine at Knoxville; the Institute for Public Service, which includes the County Technical Assistance Service and the Municipal Technical Advisory Service; and the University-Wide Administration. The university is governed by a board of 19 members, including one student member, all appointed by the Governor, who also serves as Chairman. The President is the Chief Executive Officer of the university system.

**Basis of Presentation**

The financial statements for the University of Tennessee are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The university uses the AICPA College Guide model for accounting and financial reporting.

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

**Basis of Accounting**

The financial statements of the University of Tennessee have been prepared on the accrual basis except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominately conducted. All unrestricted resources are reported as revenue in the year they are earned. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement; and (3) nonmandatory transfers, for all other cases.

**Fund Accounting**

To ensure observance of limitations and restrictions placed on the use of resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes. The allocations of fund balances for unemployment compensation, revolving accounts, unexpended gifts, and reappropriation were made in accordance with university policies.

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

All gains and losses arising from the sale, collection, or other disposition of investments and other non-cash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include student housing, bookstores, food services, parking services, and certain other activities. Hospital activities are also included in unrestricted current funds. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Although quasi-endowment funds have been established by the governing board for the same purpose as endowment funds, any portion of quasi-endowment funds may be expended. Since these funds are internally designated, the governing board retains the right to alter or amend such designation.

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

Life Income Funds

Life income funds are funds held in trust by the university under agreement with donors whereby designated beneficiaries receive specified interests in annual income of the trust. Upon death of the beneficiaries or other termination of the trust, such trust assets become available to the university for use as set forth in each agreement.

Plant Funds

The plant funds group consists of (1) unexpended plant funds which are to be used for the construction or acquisition of physical properties for institutional purposes; (2) retirement of indebtedness and renewal and replacement funds, which are funds set aside for debt service charges and for the retirement of indebtedness on institutional properties, and major maintenance items on institutional properties, respectively; and (3) investment in plant funds which are funds expended for, and thus invested in, institutional properties.

Agency Funds

The university acts solely as an agent in the handling of these funds; consequently, transactions of these funds do not affect the university's operating statements.

**Inventories**

Inventories are valued at cost, which is lower than market, based on the retail, specific identification, average cost, or FIFO basis.

**Investments**

Investments are recorded at cost, if purchased, or fair value at the date of receipt, if received as a gift.

**Investment in Plant**

Physical plant, equipment, and land are stated at cost at date of purchase or at fair value at date of donation. Depreciation on the physical plant and equipment is not



**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

recorded. Purchases of library books and holdings are recorded as current fund expenditures and capitalized at standardized costs in the plant funds. Livestock is valued at estimated market value.

**Accounts Payable**

Included in unrestricted current funds—general accounts payable are checks payable in the amount of \$5,318,015.84 and \$12,077,919.70 as of June 30, 1997, and June 30, 1996, respectively. These amounts represent the sum of checks written in excess of the university's checking account balance because of the use of a controlled disbursement account. In this way, the university maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

**Allocation for Working Capital**

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, and inventories in the unrestricted current fund at the balance sheet date except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

**Income Taxes**

The university, as a public corporation and an instrumentality of the State of Tennessee, is exempt from federal income taxes under Section 115 of the *Internal Revenue Code*. Contributions to the university are deductible by donors as provided under Section 170 of the *Internal Revenue Code*.

**Tennessee State School Bond Authority Debt Proceeds Receivable**

Tennessee State School Bond Authority Debt Proceeds Receivable in unexpended plant consist of Tennessee State School Bond Authority debt issued for which the proceeds have not yet been received.

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

**NOTE 2. COMPENSATED ABSENCES**

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued compensated absences, the effects of which are material to the financial statements, be recorded as earned. The university's policy is to record such benefits as paid. This policy is not considered a material departure from generally accepted accounting principles in that the effect of accruing the \$49,805,821.55 of such benefits, of which approximately \$11,502,700.14 would be reflected as a reduction of beginning unrestricted current fund balance, and the remainder would be funded from other sources, is not considered material. The amount of accrued compensated absences as of June 30, 1996, was \$49,734,929.94, of which approximately \$11,119,330.01 would have been reflected as a reduction of beginning unrestricted current fund balance, and the remainder funded from other sources.

**NOTE 3. DEPOSITS AND INVESTMENTS**

**Investment Policy**

The University of Tennessee maintains in unrestricted current funds a cash management investment pool that is available for use by all fund groups. State statutes and university investment policies authorize the university's cash management pool to invest in collateralized Tennessee bank or savings and loan association certificates of deposit, U. S. treasury obligations, U. S. government agency obligations, repurchase agreements of those securities, highest quality commercial paper, prime bankers' acceptances, and money market mutual funds meeting certain criteria.

In accordance with state statutes, commercial banks and savings and loan associations that do not participate in the State of Tennessee Collateral Pool for Public Deposits must pledge securities with third parties as collateral to secure university time and demand deposits. Market values of these securities are regularly monitored to ascertain that 105% of university deposits, less the amounts protected by the Federal Deposit Insurance Corporation, are secured.

There are two categories of university funds which are subject to long-term investment, the endowment and similar funds and the life income funds. The investment of these funds is governed by the gift instrument and the investment policies

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

established by the Board of Trustees. For a more complete description of these investments, please refer to Note 4, "Endowment and Similar Funds and Life Income Funds."

**Cash and Cash Equivalents**

In addition to petty cash and demand deposits, this classification includes instruments which are readily convertible to known amounts of cash. At June 30, 1997, cash and cash equivalents consisted of \$9,905,936.96 in bank accounts, \$1,458,565.01 of petty cash on hand, \$2,970,000.00 of certificates of deposit, and \$265,346,277.62 in the university's cash management investment pool. At June 30, 1996, cash and cash equivalents consisted of \$8,337,312.48 in bank accounts, \$1,296,722.00 of petty cash on hand, \$2,340,000.00 of certificates of deposit, and \$265,651,918.25 in the university's cash management investment pool. Additionally, the university maintains custodial accounts at First Tennessee Bank for funds contractually managed by independent investment counsel. In accordance with the custody agreement, First Tennessee Bank placed cash equivalents of \$14,258,126.29 at June 30, 1997, and \$5,072,281.58 at June 30, 1996, in the bank's money market mutual fund.

**Deposits**

Deposits with financial institutions are required to be categorized to indicate the level of custodial risk assumed by the university. Category 1 consists of deposits that are insured or collateralized with securities held by the university or by its agent in the university's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the university's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the university's name.

Some of the university's bank accounts are in financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

At June 30, 1997, the carrying amount of the university's deposits was \$12,875,936.96, and the bank balance including accrued interest was \$19,991,154.48. The entire bank balance was category 1.

At June 30, 1996, the carrying amount of the university's deposits was \$10,677,312.48, and the bank balance including accrued interest was \$7,281,435.45. The entire bank balance was category 1.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits.

**Cash Management Investment Pool**

The cash management investment pool consists of marketable securities and government repurchase agreements as previously described. The carrying amount and market value of the cash management pool at June 30, 1997, were \$265,346,277.62 and \$266,175,821.00, respectively. The carrying amount and market value of the cash management pool at June 30, 1996, were \$265,651,918.25 and \$262,350,507.97, respectively. The securities in the pool are categorized on the following page, listed as cash equivalents, to indicate the level of risk assumed by the university. The university's standard "Master Repurchase Agreements" require that the securities underlying repurchase agreements have fair value equal to or exceeding 100% of the cost of the repurchase agreement and be delivered to its agent's trust account at the Federal Reserve Bank - Memphis. There were no government repurchase agreements for the university's cash management pool at June 30, 1997. The fair value of securities underlying repurchase agreements at June 30, 1996, was \$43,917,229.45.

**Investments**

Investments shown on the balance sheet are classified by type of investment (bonds, stocks, real estate, etc.).

The university's investments are categorized below to indicate the level of custodial risk assumed by the university at year end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university or its agent in the university's name. Category 2 consists of uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the university's name. Category 3 consists of uninsured and

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the university's name.

June 30, 1997

	Category			Carrying Amount	Market Value
	1	2	3		
Cash equivalents					
Government securities	\$ 208,671,879.86	\$ -	\$ -	\$ 208,671,879.86	\$ 209,261,286.00
Commercial paper	<u>56,674,397.76</u>	<u>-</u>	<u>-</u>	<u>56,674,397.76</u>	<u>56,914,535.00</u>
	<u>\$ 265,346,277.62</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 265,346,277.62</u>	<u>\$ 266,175,821.00</u>
Investments					
Domestic securities					
Government securities	\$ 54,423,932.94	\$ -	\$ -	\$ 54,423,932.94	\$ 54,794,922.52
Corporate bonds	38,932,904.71	-	-	38,932,904.71	39,165,535.88
Corporate stocks	76,050,894.28	-	-	76,050,894.28	122,010,079.76
Mortgages and notes	2,926,829.58	-	5,491.62	2,932,321.20	2,965,656.51
Other investments	29,057.00	-	-	29,057.00	29,057.00
International securities					
Government bonds	15,000.00	-	-	15,000.00	14,600.00
Corporate bonds	604,026.57	-	-	604,026.57	600,116.00
Corporate stocks	<u>3,282,391.53</u>	<u>-</u>	<u>-</u>	<u>3,282,391.53</u>	<u>4,166,555.80</u>
	<u>\$ 176,265,036.61</u>	<u>\$ -</u>	<u>\$ 5,491.62</u>	<u>\$ 176,270,528.23</u>	<u>\$ 223,746,523.47</u>
	<u>\$ 441,611,314.23</u>	<u>\$ -</u>	<u>\$ 5,491.62</u>		

University cash equivalents and investments not susceptible to categorization:

Cash equivalents - assets with First Tennessee Bank as custodian	\$ 14,258,126.29	\$ 14,258,126.29
Limited partnership-venture capital funds	10,523,596.21	9,933,414.89
Mutual funds	5,603,099.11	6,452,141.87
Real estate equity funds	16,369,207.80	17,030,803.09
Real estate gifts	7,362,101.28	7,220,948.72
International equity fund	13,000,000.00	21,279,897.20
Assets with University Health System	2,316,038.33	2,316,038.33
Assets with the University of Chattanooga Foundation	1,716,121.00	1,716,121.00
Assets with First American Bank	119,742.38	140,594.88
Assets with American National Bank	206,736.02	394,848.99
Domestic bond fund	<u>5,000,000.00</u>	<u>5,204,214.50</u>
Total investments and cash equivalents	\$ 518,091,574.27	\$ <u>575,869,494.23</u>
Less: Cash equivalents	<u>279,604,403.91</u>	
Total investments on the balance sheet	\$ <u>238,487,170.36</u>	

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

June 30, 1996

	Category			Carrying Amount	Market Value
	1	2	3		
Cash equivalents					
Government securities	\$ 133,700,088.81	\$ -	\$ -	\$ 133,700,088.81	\$ 130,029,297.97
Repurchase agreements	43,000,000.00	-	-	43,000,000.00	43,000,000.00
Commercial paper	<u>88,951,829.44</u>	<u>-</u>	<u>-</u>	<u>88,951,829.44</u>	<u>89,321,210.00</u>
	<u>\$ 265,651,918.25</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 265,651,918.25</u>	<u>\$ 262,350,507.97</u>
Investments					
Domestic securities					
Government securities	\$ 45,617,236.35	\$ -	\$ -	\$ 45,617,236.35	\$ 47,533,895.98
Corporate bonds	42,023,579.71	12,929.54	-	42,036,509.25	40,298,914.57
Corporate stocks	73,583,954.97	-	-	73,583,954.97	116,079,367.92
Mortgages and notes	3,041,396.10	-	10,738.11	3,052,134.21	3,078,380.38
Other investments	29,059.00	-	-	29,059.00	29,059.00
International securities					
Government bonds	375,000.00	-	-	375,000.00	351,400.00
Corporate bonds	1,100,343.00	-	-	1,100,343.00	1,098,356.90
Corporate stocks	<u>2,471,005.09</u>	<u>-</u>	<u>-</u>	<u>2,471,005.09</u>	<u>2,361,145.40</u>
	<u>\$ 168,241,574.22</u>	<u>\$ 12,929.54</u>	<u>\$ 10,738.11</u>	<u>\$ 168,265,241.87</u>	<u>\$ 210,830,520.15</u>
	<u>\$ 433,893,492.47</u>	<u>\$ 12,929.54</u>	<u>\$ 10,738.11</u>		

University cash equivalents and investments not susceptible to categorization:

Cash equivalents - assets with First Tennessee Bank as custodian	\$ 5,072,281.58	\$ 5,072,281.58
Limited partnership-venture capital funds	7,566,026.36	8,251,234.02
Mutual funds	3,235,402.82	4,137,129.14
Real estate equity funds	5,962,950.00	5,402,943.08
Real estate gifts	5,726,587.44	5,761,134.93
International equity fund	8,000,000.00	11,916,180.81
Assets with the University of Chattanooga Foundation	1,601,257.00	1,601,257.00
Assets with First American Bank	113,929.48	124,901.66
Assets with American National Bank	205,994.05	303,385.89
Domestic bond fund	<u>5,000,000.00</u>	<u>5,052,918.50</u>
Total investments and cash equivalents	\$ 476,401,588.85	\$ <u>520,804,394.73</u>
Less: Cash equivalents		<u>270,724,199.83</u>
Total investments on the balance sheet		\$ <u>205,677,389.02</u>

Assets with trustees of \$29,714,569.82 and \$23,007,797.08 at June 30, 1997, and June 30, 1996, respectively, in retirement of indebtedness consisted of securities held in the Tennessee State School Bond Authority debt service reserve pool and with First Tennessee Bank.

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

**NOTE 4.    ENDOWMENT AND SIMILAR FUNDS AND LIFE INCOME FUNDS**

There are two categories of university funds which are subject to long-term investment, the endowment and similar funds and the life income funds. The investment of these funds is governed by the gift instrument and the investment policies established by the Board of Trustees.

Effective July 1, 1954, the university adopted the policy of investing endowment and similar funds over which it had full investment discretion (and on which the donor or governing gift instrument does not require separate investment) in the Consolidated Investment Pool. This pooling of investments affords closer supervision of the investment portfolio and provides, regardless of size, the advantages of participation in a well-diversified portfolio. All endowment and similar funds not invested as part of the Consolidated Investment Pool are separately invested to observe requirements or limitations imposed by donors. Income earned and distributed on separately invested endowment and similar funds amounted to \$418,624.58 for 1997 and \$385,578.00 for 1996. Income distributed in accordance with the approved spending plan to endowment and similar funds invested in the Consolidated Investment Pool amounted to \$9,178,103.81 for 1997 and \$7,884,912.78 for 1996.

Life income funds are separately invested entities requiring detailed accounting to reflect specific compliance with terms of each trust and applicable federal regulations. The investment objectives as reflected in each agreement vary widely since they are affected by the age, income level, and needs of the beneficiaries as well as motives and objectives of the donors. Income realized on these funds for 1997 amounted to \$2,091,090.99 and for 1996 amounted to \$1,750,201.00.

The book value of endowment and similar funds at June 30, 1997, was \$227,444,081.80, and the market value was \$282,182,458.34. This compares with a June 30, 1996, book value of \$189,344,116.12 and market value of \$234,278,784.26. The book value of life income funds at June 30, 1997, was \$36,991,645.53, and market value was \$38,410,381.31. This compares with a June 30, 1996, book value of \$30,594,330.05 and market value of \$31,978,590.30.

**NOTE 5.    BONDS AND NOTES PAYABLE**

Tennessee State School Bond Authority bonds, with interest rates ranging from 3.0% to 7.0%, are due serially to 2026 and are secured by pledges of the facilities' revenue to which they relate and certain other revenues and fees of the university, including state appropriations. The total outstanding bonded indebtedness for the

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

university was \$250,995,071.54 at June 30, 1997, and \$184,411,774.79 at June 30, 1996.

Included in the total outstanding indebtedness is a \$242,000.00 note with the Department of Education which was issued in March 1989. The note carries an interest rate of 3% and is due semi-annually to 2003. The outstanding notes payable at June 30, 1997, and June 30, 1996, were \$107,239.89 and \$124,920.41, respectively.

The university's debt service requirements to maturity for all bonds and the Department of Education note payable at June 30 are as follows:

1998	\$ 13,399,442.58
1999	13,921,838.47
2000	13,363,880.20
2001	12,606,339.17
2002	13,154,238.70
Subsequent Years	<u>184,656,572.31</u>
	<u><u>\$251,102,311.43</u></u>

Interim and short-term financing for various projects has been secured through the Tennessee State School Bond Authority from the Bond Anticipation Notes (BANs) Program established February 24, 1993, with Prudential Securities, Incorporated, as the underwriter and remarketing agent, to fund projects under construction. Under the BANs Program, the notes will mature on March 1, 1998, and may bear interest at a variable rate (daily, weekly, monthly, quarterly, semi-annually, annually), or a fixed rate (long-term) determined by Prudential Securities, Incorporated, for periods selected by the authority. Currently, interest is determined on a weekly basis and payable monthly. The notes are subject to purchase by the remarketing agent on the demand of the holder on any business day pursuant to the conditions established in the Note Resolution as described in the Official Statement relating to the notes. The remarketing agent is to use its best efforts to sell the notes to another holder. If the agent is unable to resell any notes that have been "put," the Standby Note Purchaser is required, subject to certain conditions, to purchase the notes. A standby note purchase agreement was entered into with Union Bank of Switzerland (UBS) on June 26, 1996, providing liquidity for up to \$105,000,000.00 principal amount of the notes with interest coverage for 34 days at the maximum rate of 12%, for a total commitment of \$106,173,699.00. The authority contracted to pay UBS 6 basis points per annum for the utilized portion and 5 basis points per annum for the unutilized portion of the commitment. The agreement was extended effective



**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

June 26, 1997, through March 1, 1998, based on a reduced maximum available commitment of \$64,523,273.42. It is expected that a portion of these notes will be redeemed with the proceeds from a sale of bonds at the end of the construction period for the projects being financed. The outstanding balance of the five-year notes was \$33,216,838.05 at June 30, 1997, and \$81,251,846.00 at June 30, 1996.

The total indebtedness of the university at June 30, 1997, was \$284,319,149.48, and at June 30, 1996, was \$265,788,541.20.

**NOTE 6. OPERATING LEASES**

The university has entered into various operating leases for buildings and equipment. It is expected that in the normal course of business such leases will continue to be required. Net expenditures for rentals under leases for the years ended June 30, 1997, and June 30, 1996, amounted to \$7,336,753.56 and \$7,582,225.24, respectively.

The following is a schedule by years of future minimum rental payments required under noncancelable operating leases that have initial or remaining lease terms of more than one year at June 30, 1997.

Year Ending June 30:	
1998	\$ 711,478.93
1999	701,222.25
2000	701,222.25
2001	669,572.25
2002	468,582.16
Later Years	<u>308,530.00</u>
Total Minimum Payments Required	<u><u>\$3,560,607.84</u></u>

**NOTE 7. CAPITAL LEASE OBLIGATIONS**

The university leases certain items of equipment which are classified as capital leases. These agreements have beginning and ending dates ranging from April 1995 to January 2001 and imputed interest rates ranging from 5.78% to 18%. Future minimum lease payments under capital leases together with the present value of the net minimum lease payments at June 30, 1997, are:

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

Year Ending June 30:

1998	\$ 727,891.86
1999	666,818.10
2000	607,455.60
2001	<u>354,139.45</u>
Total minimum lease payments	2,356,305.01
Less amounts representing interest	<u>249,250.94</u>
Present value of net minimum lease payment	<u><u>\$2,107,054.07</u></u>

The total value of equipment capitalized under lease obligations was \$2,413,333.70 at June 30, 1997, and \$3,607,971.21 at June 30, 1996.

**NOTE 8. INSURANCE-RELATED ACTIVITIES**

**Risk Management**

The university is exposed to various risks of loss related to general liability; automobile liability; professional malpractice; workers' compensation; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

- a. The university carries commercial insurance for losses related to hired and nonowned automobiles, losses related to railroad protection, and losses related to ten university-owned aircraft. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.
- b. The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state's general fund to provide for any property losses other than the commercial insurance coverage. At June 30, 1997, the scheduled coverage for the university was \$2,171,421,900 for buildings and \$738,086,600 for contents. At June 30,

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

1996, the scheduled coverage for the university was \$2,126,090,200 for buildings and \$641,143,200 for contents.

- c. The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund. The premium assessed to the university by the Claims Award Fund for the year ended June 30, 1997, was \$8,560,900 and for the year ended June 30, 1996, was \$8,421,538.

### **Employee Group Insurance**

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. All full-time and some part-time university employees are eligible to participate in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The university pays approximately 80% of the cost of insurance, and the employee pays the remaining 20%. All assets, liabilities, and payments are administered by the state. At June 30, 1997, 13,895 university employees were enrolled in the basic plan or Health Maintenance Organization. At June 30, 1996,

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

13,341 university employees were enrolled in the basic plan or Health Maintenance Organization.

**NOTE 9. RETIREMENT PROGRAMS**

**Defined Benefit Plans**

The university implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers." In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for these plans.

**Tennessee Consolidated Retirement System**

Plan Description

The University of Tennessee contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual costs-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230, or by calling (615) 741-8202, ext. 132.

Funding Policy

Plan members are noncontributory. The university is required to contribute at an actuarially determined rate. The current rate is 7.36% of annual covered payroll. The contribution requirements of the plan members are established by state statute. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 1997, 1996, and 1995 were \$16,639,419.22, \$14,307,283.36, and

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

\$14,399,129.01, respectively. Those contributions met the required contributions for each year.

**Federal Retirement Program**

Plan Description

The University of Tennessee contributes to the Federal Retirement Program, a cost-sharing multiple-employer defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1984, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1983. Both systems provide retirement, death, and disability benefits, as well as annual cost-of-living adjustments, to plan members and their beneficiaries. All regular full-time employees of the University of Tennessee Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two Federal Retirement Programs. For both systems, benefit provisions are established in federal statutes. Federal statutes are amended by the U.S. Congress.

CSRS and FERS issue publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by writing to the Office of Personnel Management, Retirement Information Office, P. O. Box 45, Boyers, Pennsylvania, 16017-0045, or by calling (202) 606-0500.

Funding Policy

Participating employees, with some exceptions, and the university are required by federal statute to contribute 7% of covered payroll to the CSRS plan. Contribution requirements are established and may be amended by federal statute. Contributions to CSRS for the year ended June 30, 1997, were \$1,750,892.38, which consisted of \$895,705.03 from the university and \$855,187.35 from the employees; contributions for the year ended June 30, 1996, were \$1,779,920.79, which consisted of \$907,561.75 from the university and \$872,359.04 from the employees; and contributions for the year ended June 30, 1995, were \$1,870,281.08, which consisted of \$953,544.65 from the university and \$916,736.43 from the employees.

Federal statute requires employees participating in FERS to contribute 8% of their salaries to the Basic Benefit Plan. The university is required to contribute 11.4%. In

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

addition, the university is required to contribute 1% of each participant's salary to the Thrift Savings Plan plus up to an additional 4% depending upon employees' contributions, which can range from 0% to 10% of their salaries. Contributions for the Basic Benefit Plan were \$884,462.66 for the year ended June 30, 1997, which consisted of \$57,995.03 from employees and \$826,467.63 from the university; \$841,226.30 for the year ended June 30, 1996, which consisted of \$55,135.25 from employees and \$786,091.05 from the university; and \$792,057.03 for the year ended June 30, 1995, which consisted of \$50,480.50 from employees and \$741,576.53 from the university. Contributions for the Thrift Savings Plan were \$708,032.14 for the year ended June 30, 1997, which consisted of \$441,178.00 from employees and \$266,854.14 from the university; \$650,769.34 for the year ended June 30, 1996, which consisted of \$402,722.00 from employees and \$248,047.34 from the university; and \$589,535.86 for the year ended June 30, 1995, which consisted of \$376,161.82 from employees and \$213,374.04 from the university. Contributions met the requirements for each year.

**Defined Contribution Plans**

**Optional Retirement Plans (ORP)**

The university contributes to three defined contribution plans: Tennessee Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary below the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans for the year ended June 30, 1997, was \$29,845,004.14, which represented 10.1% of the covered payroll, and for the year ended June 30, 1996, was \$29,529,501.89, which represented 10.1% of the covered payroll. Contributions met the requirements for each year.

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

**Joint Contributory Retirement System Plan A - JCRS-A**

The Joint Contributory Retirement System Plan A (JCRS-A) is a defined contribution plan with minimum benefits and is administered by the Tennessee Consolidated Retirement System and TIAA-CREF. Employees who were enrolled in the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) before July 1977 are members of JCRS-A. Enrollment in this plan for new employees has been closed since July 1977. Although JCRS-A members participate in Aetna, TIAA-CREF, or VALIC, they may also, under certain circumstances, receive a supplementary benefit from the State of Tennessee. Plan provisions are established by *Tennessee Code Annotated*, Chapter 35, Part 4. State statutes are amended by the Tennessee General Assembly.

Plan members are noncontributory. The university's contributions for JCRS-A members were calculated using the base salary amounts of \$73,198,878.88 for fiscal year 1997 and \$75,717,573.19 for fiscal year 1996. Contribution requirements are established and amended by state statute. The contributions are included in the ORP amounts. University contributions to fund the state supplemental benefit totaled \$5,380,011.15 and \$4,792,754.90 in fiscal years 1997 and 1996. Contributions met the requirements for each year.

**Deferred Compensation Plans**

The University of Tennessee offers its employees three deferred compensation plans. The university, through the State of Tennessee, provides two plans, one established pursuant to *Internal Revenue Code (IRC)*, Section 457, and the other pursuant to *IRC*, Section 401(k). The third plan is administered by the university and was established in accordance with *IRC*, Section 403(b). These plans, available to all university employees, permit them to defer a portion of their salaries to future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All costs of administering and funding these plans, with the exclusion of the \$20 monthly university match for the Section 401(k) plan, are the responsibility of plan participants.

Section 457 plan balances have been reported in the State of Tennessee financial statements in an agency fund. All amounts of compensation deferred under this plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State of Tennessee (without being restricted to the provisions of benefits under the plan), subject only to

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

claims of the state's general creditors. Participants' rights under the plan are equal to those of general creditors of the state in an amount equal to the fair value of the deferred account for each participant. It is the opinion of the state's legal counsel that the state has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The state believes it is unlikely that it will use these assets to satisfy such claims of general creditors in the future.

Since Section 401(k) plan assets remain the property of the contributing employees, they are not presented in the State of Tennessee financial statements. *IRC* Section 401(k) establishes participation, contribution, and withdrawal provisions for the plan. Effective January 1996, the university began providing a \$20 monthly Section 401(k) match from unrestricted current funds for employees making a minimum monthly contribution of \$20 to the plan. During the year ended June 30, 1997, contributions totaling \$5,240,130.17 were made by employees participating in the plan, with a related match of \$1,368,900.00 made by the university.

In accordance with the *IRC*, employee contributions through the 403(b) plan remain the assets of the employee; therefore, these employee contributions are not reflected in the university's financial statements.

**Other Post-Employment Benefits**

Health care

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided by and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 10. AFFILIATED ENTITIES**

The University of Chattanooga Foundation, Inc., a private nonprofit corporation, maintains an endowment fund of which the University of Tennessee at Chattanooga is the sole income beneficiary. The financial records, investments, and other financial transactions are not managed by the university and accordingly are not included in



**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

these financial statements except for certain endowment assets. During the years ended June 30, 1997, and June 30, 1996, the Foundation transferred \$2,479,814.00 and \$2,306,012.00, respectively, to the university for support of designated projects at the Chattanooga campus. In addition, \$115,150.41 and \$167,718.30 were expended in 1997 and 1996 directly by the Foundation for the benefit of the University of Tennessee at Chattanooga.

Since fiscal year 1985, the Tennessee General Assembly has appropriated \$22 million to a Chairs of Excellence Endowment for the University of Tennessee. The appropriations provided that the Chairs of Excellence Endowment be established as an irrevocable trust with the state treasurer and require the university to match the appropriation on a dollar-for-dollar basis. The university has fully matched 49 chairs as of June 30, 1997. The financial statements of the university include as restricted expenditures the amounts expended in the current year to match the state appropriations. The university's balance sheets do not include the amounts held in trust by the state treasurer.

**NOTE 11. CONTINGENCIES AND COMMITMENTS**

**Construction Commitment**

The university has contractual obligations for the construction of new buildings and additions to and renovations of existing buildings. The outstanding commitments under such contracts at June 30, 1997, were \$22,478,119.19. At June 30, 1996, these commitments were \$39,729,663.80. At June 30, 1997, amounts due from or receivable from the state totaled \$47,545,253.13, and amounts due from or receivable from the School Bond Authority for capital construction, renovations, and maintenance totaled \$3,500,505.79. At June 30, 1996, these amounts totaled \$26,788,768.27 and \$7,094,202.64.

**Construction in Progress**

Construction in progress is included in buildings and improvements other than buildings in investment in plant. Fifty-one projects were under construction at June 30, 1997, and 40 were under construction at June 30, 1996. Construction in progress totaled \$51,037,430.46 at June 30, 1997, and \$46,039,884.04 at June 30, 1996.

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

**Encumbrances**

Encumbrances which represent commitments of prior-year funds for goods that have been ordered but not delivered or services that have not been rendered as of June 30, 1997, are recorded as an allocation of the current fund balances. The allocation for encumbrances at June 30, 1997, was \$8,939,235.95. The allocation for encumbrances at June 30, 1996, was \$8,728,747.48.

**Sick Leave**

The university's policy is to record the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent due to illness, or injury, there is no liability for sick leave at June 30, 1997. The amount of unused sick leave at June 30, 1997, was \$153,893,713.50 and at June 30, 1996, was \$149,607,387.98.

**Grants and Contracts**

The university receives grants and contracts from various federal and state agencies to fund research and other activities. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and disallowance by the granting agency. The university administration believes that any disallowance or adjustments would not have a material effect on the university's financial position.

**Nonvested Equipment**

Equipment in the possession of the university valued at \$8,288,627.86 and \$8,167,125.86 as of June 30, 1997, and June 30, 1996, respectively, is not reflected in the financial statements. This equipment was purchased with restricted grant and contract funds and other funds, and title has not yet transferred to the university.

**Litigation**

Various litigation has arisen in the course of conducting university business. The outcome of such litigation is not expected to have a material effect on the financial position of the university.

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

**NOTE 12. PLEDGES**

Pledges totaling \$24,086,896.39, restricted to instruction, research, public service, library, operation and maintenance of physical plant, student aid, property, buildings, equipment, endowment, loans, and other restricted purposes, are due to be collected over the next five fiscal years as follows:

<u>Fiscal Year</u>	
1997-98	\$ 8,072,564.15
1998-99	4,838,764.07
1999-2000	6,340,892.25
2000-01	2,869,038.77
2001-02	<u>1,965,637.15</u>
Total	<u>\$24,086,896.39</u>

It is not practicable to estimate the net realizable value of such pledges, and therefore, they are not reflected in the accompanying financial statements.

**NOTE 13. PRIOR PERIOD RESTATEMENTS**

The June 30, 1996, balance sheet was restated to correct for errors in the application of accounting principles. The university capitalized library books but failed to capitalize library holdings. As a result, library holdings and net investment in plant under the investment in plant subgroup, were increased by \$83,588,063.00. In addition, the university recorded the indebtedness liability incurred to finance plant acquisition, construction, and the like in the investment in plant subgroup before the proceeds of the indebtedness were expended. As a result, under the unexpended plant funds subgroup, Tennessee State School Bond Authority indebtedness was increased by \$7,094,202.64, and fund balance was decreased by \$7,094,202.64. Under the investment in plant subgroup, Tennessee State School Bond Authority indebtedness was decreased by \$7,094,202.64, and net investment in plant was increased by \$7,094,202.64. The beginning fund balances were appropriately adjusted on the June 30, 1997, Statement of Changes in Fund Balances.

**The University of Tennessee**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1997, and June 30, 1996**

---

**NOTE 14. CHANGES IN ESTIMATE - LIBRARY BOOKS STANDARDIZED VALUES**

At June 30, 1996, library books were valued at \$20 per volume. The valuation was reassessed at June 30, 1997, and the value was increased to \$48 per volume. As a result of the revaluation, library holdings and net investment in plant, under the investment in plant subgroup, increased by \$90,208,972 at June 30, 1997.